

**SOUTH PARK COUNTY  
SANITATION DISTRICT  
(A Component Unit of the  
County of Sonoma, California)**

Independent Auditor's Reports, Management's  
Discussion and Analysis and Basic  
Financial Statements

For the Year Ended June 30, 2008

**SOUTH PARK COUNTY SANITATION DISTRICT  
FOR THE YEAR ENDED JUNE 30, 2008**

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Board of Directors  
South Park County  
Sanitation District  
Santa Rosa, California

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of South Park County Sanitation District (District), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2008, and the changes in its financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated October 28, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Macian Mini & O'Connell LLP*

Certified Public Accountants

Sacramento, California

October 28, 2008

## **Management's Discussion and Analysis**

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

As management of the South Park County Sanitation District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the District's financial statements (pages 10-12) and the accompanying notes to the financial statements (pages 13-23).

**Reporting Entity**

The District is managed by the Sonoma County Water Agency (Water Agency), which provides administration, engineering, operational and maintenance services. The District is governed by a Board of Directors, which is the County of Sonoma Board of Supervisors. The District is considered an integral part of the County of Sonoma's (County) reporting entity, resulting in the District's financial statements being included in the County's annual financial statements.

Please refer to the reporting entity definition within the notes to the financial statements for additional detail.

**Financial Highlights**

*Net Assets*

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$14,501,891 (*net assets*). Of this amount, \$6,755,651 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.

*Revenues and Capital Contributions*

The District recognized total revenues of \$3,395,531 during fiscal year 2007/08. Of this amount, \$2,990,489 consists of charges for services (operating revenues) and \$247,686 represented nonoperating revenues, consisting of investment earnings and intergovernmental revenue. The District recognized \$15,080 in connection fees and \$142,276 of capital contributions received from other governments for the year ended June 30, 2008.

*Expenses*

The District incurred expenses totaling \$2,231,135 during fiscal year 2007/08. Of this amount \$2,096,329 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. Nonoperating expenses totaled \$134,806, which is comprised of interest expense related to the District's long-term debt obligation and a loss from the disposition of capital assets.

*Increase in Net Assets*

The District recorded operating income of \$894,160 for fiscal year 2007/08, while recognizing an overall increase in net assets of \$1,164,396.

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District's financial statements are comprised of three components: (1) management's discussion and analysis, (2) financial statements, and (3) notes to the financial statements.

*Management's Discussion and Analysis*

Management's discussion and analysis is intended to provide the narrative overview that users need to interpret the financial statements. Management's discussion and analysis also provides analysis of some key data presented in the financial statements.

*Financial Statements*

The District is engaged only in business-type activities. The District accounts for its financial activities utilizing fund accounting, specifically enterprise fund accounting, to ensure and demonstrate compliance with finance-related legal requirements. An enterprise fund is a proprietary fund type used to report activities for which a fee is charged to external customers for goods or services provided. The focus of an enterprise fund is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flow. The financial statements presented are the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

*Notes to the Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13-23.

**Financial Analysis**

Net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$14,501,891 at the close of the most recent fiscal year compared to net assets of \$13,337,495 as of June 30, 2007.

A portion of the District's net assets (46.9% for fiscal year 2008 compared to 57.2% for 2007) reflects its investment in capital assets (e.g., land and buildings), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

*Condensed Statement of Net Assets*

	June 30, 2007	June 30, 2008	Percentage Change
Current and other assets	\$ 6,644,158	\$ 7,847,962	18.1 %
Capital assets	9,654,597	9,628,034	(0.3)%
<b>Total Assets</b>	16,298,755	17,475,996	7.2%
Current liabilities	131,885	248,645	88.5%
Noncurrent liabilities	2,829,735	2,725,460	(3.7)%
<b>Total Liabilities</b>	2,961,260	2,974,105	0.4%
Invested in capital assets net of related debt	7,625,423	6,799,627	(10.8)%
Restricted for debt service	86,846	946,613	990.0%
Unrestricted	5,625,226	6,755,651	20.1%
<b>Total Net Assets</b>	\$ 13,337,495	\$ 14,501,891	8.7%

A portion of the District's net assets, \$946,613 and \$86,846 for 2008 and 2007, respectively, represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$6,755,651 for 2008 and \$5,625,226 for 2007 may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District reported positive balances in all categories of net assets.

*Condensed Statement of Changes in Net Assets*

	June 30, 2007	June 30, 2008	Percentage Change
Revenues:			
Operating revenues	\$ 2,860,517	\$ 2,990,489	4.5%
Nonoperating revenues	1,604,357	247,686	(84.6)%
<b>Total revenues</b>	4,464,874	3,238,175	(27.5)%
Expenses:			
Services and supplies	\$ 1,875,908	\$ 1,828,657	(2.5)%
Fiscal agent fees and legal services	15,263	12,740	(16.5) %
Depreciation and amortization	189,636	254,932	34.4 %
Interest expense	10,737	134,357	1151.3%
Loss on disposal of capital assets	--	449	--
<b>Total expenses</b>	2,091,544	2,231,135	6.7%



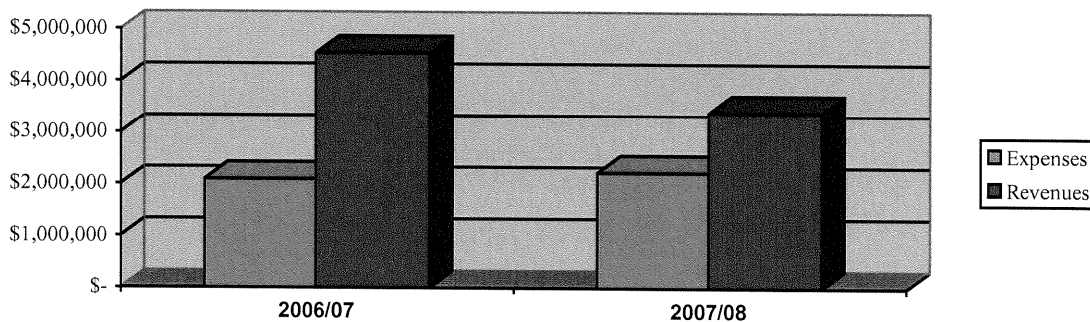
**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

*Condensed Statement of Changes in Net Assets (continued)*

	June 30, 2007	June 30, 2008	Percentage Change
Income before contributions	2,373,330	1,007,040	(57.6)%
Capital contributions:			
Capital contributed from other governments	--	142,276	--
Connection fees	74,300	15,080	(79.7)%
Increase in net assets	2,447,630	1,164,396	(52.4)%
Net assets – beginning of year	10,889,865	13,337,495	22.5 %
Net assets – end of year	\$ 13,337,495	\$ 14,501,891	8.7%

The District's net assets increased by \$1,164,396 during 2007/08 compared to an increase of \$2,447,630 during 2006/07. Overall total revenues received by the District decreased 27.5% from 2006/07. Total expenses incurred during 2007/08 increased 6.7% primarily as a result of increased interest expense related to the District's 2005 revenue bonds.

*Expenses and Revenues*

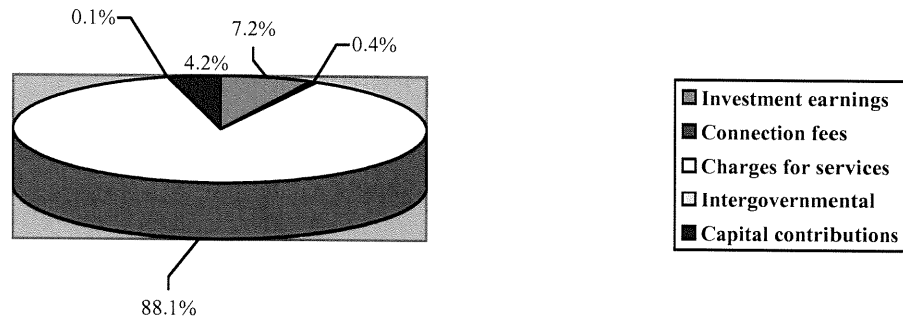


Total revenues of the District for fiscal year 2007/08 totaled \$3,395,531 representing a decrease of \$1,143,643 from the preceding fiscal year revenues of \$4,539,174. This decrease is primarily the result of intergovernmental revenue received in fiscal year 2006/07 towards capital projects that was not received in 2007/08.

Total expenses for the District increased \$139,591 to \$2,231,135 for fiscal year 2007/08.

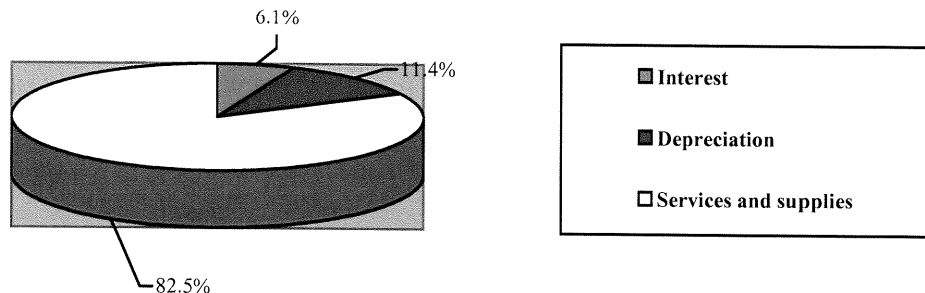
**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

*Revenues by Source*



As previously mentioned, the District recognized \$3,395,531 of revenue in fiscal year 2007/08. Of this amount \$2,990,489 or 88.1%, was generated through charges for services. Charges for services represent sewer services charges to cover operations and maintenance costs, which are initially collected through the permitting process, then subsequently through the tax rolls. Investment earnings represent 7.2% of revenues and consist of earnings on pooled cash held with the Sonoma County Treasurer. Intergovernmental revenues and capital contributed from other governments, representing federal grant financing towards the Moorland Avenue collection system project combined for 4.3% of the District's revenues in 2007/08. Connection fees, which accounted for 0.4% of the annual revenue, are also collected through the permitting process.

*Expenses by Function*



Expenses for the District for fiscal year 2007/08 totaled \$2,231,135. Costs associated with the collection, treatment, and disposal of effluent represent 82.5% of the District's costs. The next largest functional area is depreciation and amortization expense of \$254,932 (11.4%) of total expenses. Interest expense totaling \$134,357 (6.0%) represents the cost of meeting current debt service on the District's long-term obligations.

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Capital Asset and Debt Administration**

*Capital assets*

The District's investment in capital assets as of June 30, 2008, amounts to \$9,628,034 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements, and construction in progress

Major capital asset activity during the current fiscal year included the following:

- Moorland Avenue – collection system replacement

*South Park Sanitation District's Capital Assets*

	June 30, 2007	June 30, 2008	Percentage Change
Construction in progress	\$ 153,944	\$ 362,736	135.6%
Buildings and improvements	12,505,798	12,520,999	0.1%
Accumulated depreciation	(3,005,145)	(3,255,701)	8.3%
Total capital assets	\$ 9,654,597	\$ 9,628,034	(0.3)%

Additional information on the District's capital assets can be found in Note D on page 19 of this report.

*Long-term debt*

As of June 30, 2008, the District had a total of \$2,829,375 in outstanding revenue bonds.

*South Park County Sanitation District's Outstanding Current and Long Term Debt*

	June 30, 2007	June 30, 2008	Percentage Change
Revenue bonds	\$2,928,290	\$ 2,829,375	(3.4)%

The District's total debt decreased by \$98,915 during the current fiscal year.

The decrease in revenue bonds is due to the annual principal payment (\$110,000) on the outstanding revenue bonds along with amortization of the original issue premium (\$3,252) and the deferred amount on refunding \$14,337.

Additional information on the District's current and long-term debt can be found in Note E on pages 20 of this report.

**SOUTH PARK COUNTY SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Next Year's Budget and Rates**

Budgeted gross expenses for the District for fiscal year 2008/09 have increased by \$1,115,788 (18.3%) for a total of \$7,228,538. The major component of the increase in budgeted expenses is related to capital projects in the District's construction fund.

Following is a comparison of final 2007/08 and proposed 2008/09 budgeted expenses for the District:

	2007/08	2008/09	Increase (Decrease)	Percentage Change
Operations	\$ 4,052,832	\$ 3,089,904	\$ (962,928)	(23.8)%
Debt service - revenue bonds	159,918	155,958	(3,960)	(2.5)%
Construction	1,900,000	3,982,676	2,082,676	109.6%
	<u>\$ 6,112,750</u>	<u>\$ 7,228,538</u>	<u>\$ 1,115,788</u>	<u>18.3%</u>

Budgeted expenses for fiscal year 2007/08 differ in several instances from the budgeted expenses presented in management's discussion and analysis issued for the period ending June 30, 2007. These variances are due to Board approved budgetary adjustments made subsequent to the publication of the 2007/08 audited basic financial statements.

The sewer service fee rates were increased for the 2008/09 budget year by 3.0%.

The following tables show the sanitation services rates and equivalent single dwellings for the District.

*Rate per Equivalent Single-Family Dwelling*

	2007/08	2008/09	Percentage Change
	\$ 726	\$ 748	3.0 %

*Number of Equivalent Single-Family Dwellings by District*

	2007/08	2008/09	Percentage Change
	3,993	3,999	0.2%

**Request for Additional Information:**

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller Treasurer Tax Collector's Office, ATTN. Fiscal Division, 585 Fiscal Drive, Room 101F, Santa Rosa, CA 95403.

## **Basic Financial Statements**

**SOUTH PARK COUNTY SANITATION DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

**Assets**

Current assets:

Cash and investments	\$ 5,442,547
Accounts receivable	1,342,478
<b>Total current assets</b>	<b>6,785,025</b>

Noncurrent assets:

Restricted cash and investments:	
Revenue bond fund	978,826
Restricted for capital projects	968
<b>Total restricted assets</b>	<b>979,794</b>
Other assets	83,143
Capital assets:	
Construction in progress	362,736
Buildings and improvements	12,520,999
Less accumulated depreciation	(3,255,701)
<b>Total capital assets (net of     (accumulated depreciation))</b>	<b>9,628,034</b>
<b>Total noncurrent assets</b>	<b>9,711,177</b>
<b>Total assets</b>	<b>17,475,996</b>

**Liabilities**

Current liabilities

Accounts payable and accrued expenses	112,517
Current liabilities payable from restricted assets:	
Revenue bonds payable	103,915
Accrued interest payable	32,213
<b>Total current liabilities payable from restricted assets</b>	<b>136,128</b>

Noncurrent liabilities

Revenue bonds payable	2,725,460
<b>Total liabilities</b>	<b>2,974,105</b>

**Net Assets**

Invested in capital assets, net of related debt	6,799,627
Restricted for debt service	946,613
Unrestricted	6,755,651
<b>Total net assets</b>	<b>\$ 14,501,891</b>

The accompanying notes are an integral part of these financial statements.

**SOUTH PARK COUNTY SANITATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

<b>Operating revenues</b>	
Flat charges	\$ 2,854,566
Charges for services	38,224
Other	97,699
Total operating revenues	2,990,489
<b>Operating expenses</b>	
Services and supplies	1,828,657
Fiscal agent fees and legal services	12,740
Depreciation and amortization	254,932
Total operating expenses	2,096,329
Operating income	894,160
<b>Nonoperating revenues (expenses)</b>	
Investment earnings	244,947
Interest expense	(134,357)
Intergovernmental	2,739
Loss on disposal of capital assets	(449)
Total nonoperating revenues, net	112,880
Income before capital contributions	1,007,040
Capital contributed from other governments	142,276
Capital contribution - connection fees	15,080
<b>Increase in net assets</b>	1,164,396
<b>Net assets - beginning of year</b>	13,337,495
<b>Net assets - end of year</b>	\$ 14,501,891

The accompanying notes are an integral part of these financial statements.

**SOUTH PARK COUNTY SANITATION DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 2,904,347
Payments to Sonoma County Water Agency	(60,730)
Payments to suppliers	(1,668,151)
Net cash provided by operating activities	1,175,467

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchase of capital assets	(214,852)
Principal payments on revenue bonds payable	(110,000)
Interest paid on revenue bonds payable	(133,618)
Intergovernmental revenue	2,739
Capital contributed by other governments	426,927
Connection fees	65,900
Net cash provided by capital and related financing activities	37,096

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received on pooled cash and investments	244,947
Net increase in cash and cash equivalents	1,457,509
Cash and cash equivalents - beginning of year	4,964,832
Cash and cash equivalents - end of year	\$ 6,422,341

**Reconciliation to the statement of net assets**

Cash and investments	\$ 5,442,547
Restricted cash and investments	979,794
Cash and cash equivalents	\$ 6,422,341

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income	\$ 894,160
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	254,932
Change in assets and liabilities:	
Increase in accounts receivable	(86,142)
Increase in accounts payable and accrued expenses	112,516
Net cash provided by operating activities	\$ 1,175,467

The accompanying notes are an integral part of these financial statements.



**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note A.     Defining the Financial Reporting Entity**

The South Park County Sanitation District (the District) is managed by the Sonoma County Water Agency (the Water Agency), which provides engineering, administration, operational, and maintenance services. The District is responsible for maintaining and operating the local sanitation collection systems and pump stations. The District has an ordinance defining policies, including user fees.

An agreement for transfer of responsibility to the City of Santa Rosa of collection system operation and maintenance, and subsequent dissolution of the District, was finalized on February 27, 1996 and amended February 1998, June 2000, and April 1, 2004. Under this agreement, (1) the District will be dissolved no later than June 30, 2011, (2) the City of Santa Rosa shall acquire the unused capacity of the District, and (3) the District will upgrade the collection system to meet the standards of the City of Santa Rosa. The agreement requires the District to replace, slip-line, or repair 41,610 feet of the collection system and upgrade the Todd Road lift station before transferring to the City of Santa Rosa.

*Component Unit Reporting*

The District is governed by a Board of Directors (Board) which is the County of Sonoma (County) Board of Supervisors. The exercise of this oversight responsibility causes the District to be an integral part of the County's reporting entity. Therefore, the District's financial statements have also been included in the County's annual financial statements.

There are no other organizations or agencies whose basic financial statements should be combined and presented with the District's basic financial statements.

**Note B.     Summary of Significant Accounting Policies**

The District conforms to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. A summary of significant accounting policies is included below:

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The District uses a proprietary (enterprise) fund to account for its activities. An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required for any activity whose principal external revenue sources meet any of the following criteria: (1) issued debt is backed solely by fees and charges, (2) the cost of providing services for any activity (including capital costs such as depreciation or debt service) must be legally recovered through fees or charges, or (3) if the government's policy is to establish activity fees or charges designed to recover the cost of providing services.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note B.      Summary of Significant Accounting Policies (Continued)**

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Flat charges (sewer service fees) are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncement of the Financial Accounting Standards Board or any Accounting Principles Board Opinions or Accounting Research Bulletins issued on or before November 20, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Proprietary funds distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are flat charges and charges for services. Operating expenses for the District include expenses relating to the collection, treatment, disposal, and reclamation of effluent as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

*Cash and Investments*

The District's cash and investments are pooled with the Sonoma County Treasurer except for restricted funds held by an outside trustee. The Sonoma County Treasurer also acts as a disbursing agent for the District. The fair value of the investments in the pool is determined quarterly. Realized gains or losses and interest earned on pooled investments are allocated quarterly to the District based on its respective average daily balance for that quarter in the County Treasury Investment Pool (the Treasury Pool), an external investment pool.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note B.      Summary of Significant Accounting Policies (Continued)**

*Cash and Investments (Continued)*

The District applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value in the statement of net assets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the District has stated its Treasury Pool investments at fair value.

The District applies the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures* – an amendment to GASB Statement No. 3, which requires governmental entities to provide disclosures on deposit and investment risks related to credit risk, interest rate risk and custodial credit risk.

For purposes of the statement of cash flows, the District considers all pooled cash and investments as cash and cash equivalents because the Treasury Pool is used as a demand deposit account. Cash with trustee and restricted cash and investments with a maturity of three months or less when purchased are also considered cash and cash equivalents.

*Accounts Receivable*

Accounts receivable consists of uncollected fees for sanitation services and flat charges, as well as amounts outstanding from the City of Santa Rosa for the reimbursement of expenses pursuant to a Cooperative Agreement for a collection system replacement project. Flat charges are established annually by the Board and are billed through the County's property tax system.

*Other Assets*

Other assets represent deferred bond issuance costs of \$83,143 as of June 30, 2008, net of accumulated amortization. These costs are amortized using the straight-line method over the term of the outstanding bonds.

*Restricted Assets*

Restricted assets represent cash and investments maintained in accordance with bond resolutions or by agreement, for the purpose of funding certain debt service payments, rebate programs and improvements and extensions to the collection systems.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note B. Summary of Significant Accounting Policies (Continued)**

*Capital Assets*

Capital assets are stated at cost or estimated historical cost. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation has been provided, excluding land, using the straight-line method over estimated lives ranging from 3 to 50 years. Useful lives of machinery and equipment are generally estimated to be 3 to 15 years. Buildings and improvements are generally estimated to have useful lives ranging from 30 to 50 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives, are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

*Revenue Bond Premium and Deferred Amount on Refunding*

Revenue bond premiums are deferred and amortized using the straight-line method over the term of the outstanding bonds. Bond premiums increase the carrying value of the related debt. Deferred amount on refunding of revenue bonds, results from the difference between the carrying amount of the defeased/refunded debt and its reacquisition price. Deferred amounts on refunding are amortized over the remaining life of the refunded debt or the remaining life of the newly issued debt, whichever is shorter. The unamortized portion of the deferred amount on refunding is reported as a direct reduction or addition to the carrying amount of the refunding debt.

*Net Assets*

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted or through external restrictions imposed by creditors, grantors or laws or regulation of other governments. Unrestricted net assets represent amounts that are not restricted for any project or other purposes and can be used for ongoing operations and fund current obligations.

*Intergovernmental Transactions*

Intergovernmental transactions made during the year are primarily charges for current services or facilities provided. These transactions are recorded as revenue and expenses by the District.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note B. Summary of Significant Accounting Policies (Continued)**

*Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note C. Cash and Investments**

The District follows the practice of pooling cash and investments with the County Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and lease agreements. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Interest income earned on pooled cash and investments is allocated quarterly based on the average daily balances of the District during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the District.

*Investment Guidelines*

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered state warrants and municipal notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Reverse repurchase agreements
- Money market mutual funds
- Collateralized mortgage obligations
- Joint power agreements

A copy of the County Investment Policy is available upon request from the County Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note C. Cash and Investments (Continued)**

Cash and investments included the following:

	Fair Value
Cash and investments in Sonoma County	
Treasurer's pooled investment fund	\$6,421,373
Cash and investments with trustee	968
	<u>\$6,422,341</u>

As of June 30, 2008, the District's investments consisted of \$6,421,373 in the Treasury Pool managed by the County Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 394 days. The credit rating and other information regarding specific investments maintained in the Treasury pool as of June 30, 2008 are disclosed in the County's 2007-08 Comprehensive Annual Financial Report.

*Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. As of June 30, 2008, all of the District's investments held by a third party trustee have a maturity of less than 12 months, as the following schedule presents:

Investment Type	Remaining Maturity 12 Months or Less
Held by trustee:	
Money market mutual funds	\$ 968

*Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note C. Cash and Investments (Continued)**

*Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. Presented below is the minimum rating required by (where applicable) the California Government Code, the County's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type	Total	Minimum Legal Rating	Credit Rating at Year-End
Held by trustee:			
Money market mutual funds	\$ 968	AAA	AAA

**Note D. Capital Assets**

Capital asset activity for the year ended June 30, 2008 was as follows:

	July 1, 2007	Additions	Retirements	Transfers	June 30, 2008
Capital assets, not being depreciated:					
Construction in progress	\$ 153,944	\$ 224,442	\$ -	\$ (15,650)	\$ 362,736
Capital assets, being depreciated:					
Buildings and improvements	12,505,798	-	-	15,201	12,520,999
Less accumulated depreciation for:					
Buildings and improvements	(3,005,145)	(250,556)	-	-	(3,255,701)
Total capital assets, being depreciated, net	9,500,653	(250,556)	-	15,201	9,265,298
Total capital assets, net	\$ 9,654,597	\$ (26,114)	\$ -	\$ (449)	\$ 9,628,034

Depreciation expense amounted to \$250,556 for the year ended June 30, 2008.

The total amount of interest capitalized in connection with collection system construction projects during the year ended June 30, 2008 amounted to \$9,590.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note E. Long-Term Obligations**

*Revenue Bonds*

The District issues bonds where the District pledges income derived from charges for services to pay debt service. The original amount of revenue bonds issued to finance construction projects for expanding existing wastewater collection system and constructing additional facilities was \$3,565,000, of which \$3,255,000 was refunded in September 2005. As of June 30, 2008, \$3,040,000 of Series 2005C refunding revenue bonds, with interest rates ranging from 2.8% - 5.0%, is outstanding.

Revenue bond debt service requirements to maturity are as follows:

Year ending June 30,	Principal	Interest
2009	\$ 115,000	\$ 126,439
2010	115,000	123,046
2011	120,000	119,304
2012	125,000	115,250
2013	125,000	111,031
2014 – 2018	710,000	480,328
2019 – 2023	865,000	309,569
2024 – 2027	865,000	117,945
<b>Total</b>	<b>\$ 3,040,000</b>	<b>\$1,502,912</b>

*Changes in Long-Term Obligations*

Long-term obligation activity for the year ended June 30, 2008 was as follows:

	July 1, 2007	Additions	Reductions	June 30, 2008	Due Within One Year
Revenue bonds	\$ 3,150,000	\$ -	\$(110,000)	\$3,040,000	\$115,000
Less deferred amounts for:					
Original issue premium	65,031	-	(3,252)	61,779	3,252
Deferred amount on refunding	(286,741)	-	14,337	(272,404)	(14,337)
<b>Total bonds payable</b>	<b>\$ 2,928,290</b>	<b>\$ -</b>	<b>\$ (98,915)</b>	<b>\$2,829,375</b>	<b>\$103,915</b>



**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note F.      Debt Defeasance**

In September 2005, the District, through the Water Agency and the California Statewide Communities Development Authority, issued Water and Wastewater Revenue Bonds (Series 2005C) totaling \$3,250,000. The proceeds of the bonds were used to purchase U.S. government securities, which were deposited into an irrevocable trust with an escrow agent to advance refund the District's outstanding Series 2000B revenue bonds totaling \$3,255,000. As a result, the Series 2000B Revenue Bonds are considered defeased and the related liability is not reported in the District's financial statements. As of June 30, 2008, \$2,985,000 of the Series 2000B Revenue bonds was outstanding.

**Note G.      Related Party Transactions**

The District is a special district under the Board, and as such, has the same board members as the County. Both the District and the Water Agency are component units of the County, and therefore, are considered related parties.

The District is managed by the Water Agency, which provides administration, engineering, operational, and maintenance services. The District does not incur any payroll expenses. The Water Agency allocates overhead costs to the District via the use of an overhead rate charged on labor applicable to the District. The overhead rate is reviewed periodically by management to determine its effectiveness. The District paid \$58,236 to the Water Agency for administrative support during the year ended June 30, 2008.

**Note H.      Risk Management**

The District is covered by the County's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The District is covered under this program for general liability, auto liability, public employees' performance/dishonesty and property insurance.

The County maintains a self-insured retention of \$1,000,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority (CSAC-EIA) and Excess Liability Program. Limits of this coverage are \$15,000,000.

The County also maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company and administered by CSAC-EIA with limits of \$10,000,000 and a \$25,000 deductible.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA property insurance program. Limits of coverage are \$575,000,000 per occurrence including flood and \$60,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note H. Risk Management (Continued)**

The District pays its pro-rata share of annual premiums for insurance coverage through the Water Agency's allocation of overhead costs (see Note G). Settled claims have not exceeded this coverage for any of the past three fiscal years.

**Note I. Commitments and Contingencies**

*Pending Litigation, Claims, and Assessments*

The District and the County entered into a Plan of Action with the North Coast Regional Quality Control Board (NC Regional Board) in 1999 to investigate a groundwater plume of halogenated volatile organic compounds (HVOC's) believed to have leaked from former dry cleaning operations and possibly using sewer pipes as a conduit. The investigation was completed in February 2002 at a cost of approximately \$1,250,000. Currently, the NC Regional Board is focusing on other potentially responsible parties (mainly oil companies) in connection with a petroleum hydrocarbon plume which is co-mingled with the HVOC plume. The District is working with the NC Regional Board to require other potentially responsible parties to conduct investigations of HVOC source areas on their properties. In this regard, the NC Regional Board sent out two information request/source investigation letters in late 2005 to owners of properties in the area which may be a source of HVOCs. The District and the County may be held responsible for conducting remediation of the plume. In such event, substantial additional costs may be incurred in connection with the remedial action. In addition, negotiation of a clean-up strategy will result in costs from technical and legal consultants. It is too early to predict the amount or allocation of such costs.

*Other Regulatory Matters*

The District is subject to Section VII of the Endangered Species Act. Section VII requires that all affected agencies, including the District, consult with fish and wildlife officials before performing any work which might disrupt or harm any endangered or threatened species or their habitat. This Act increases the possibility of threatened litigation from various environmental groups and individuals. The District is also subject to Section X of the Endangered Species Act which deals with habitat conservation planning.

The Governmental Accounting Standards Board (GASB) has released the following new standard which may have an impact on the District::

**SOUTH PARK COUNTY SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note J.      Recent Governmental Accounting Standards**

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued in November 2006. This Statement establishes accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The Statement establishes once any of five specified obligating events occurs, a government is required to estimate the components of the expected pollution remediation outlays and determine whether the outlays for those components should be recorded as a liability or, if appropriate, capitalized when goods and services are acquired. GASB Statement No. 49 is effective for financial statements for years beginning after December 15, 2007.

The impact on the financial statements of the District of this pronouncement which has not yet been adopted, is unknown at this time.

## **Other Report**



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Board of Directors  
South Park County  
Sanitation District  
Santa Rosa, California

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of South Park County Sanitation District (District), as of and for the year ended June 30, 2008, and have issued our report thereon dated October 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and District management and is not intended to be and should not be used by anyone other than these specified parties.

*Maclean Mini & O'Connell LLP*

Certified Public Accountants

Sacramento, California

October 28, 2008